



State of New Mexico  
*OFFICE OF THE STATE AUDITOR*

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November 29, 2012

Senator Mary Kay Papen, Chair  
Representative Patricia A. Lundstrom, Vice Chair  
New Mexico Finance Authority Oversight Committee  
411 State Capitol  
Santa Fe, NM 87501

**RE: Office of the State Auditor's Contract with PricewaterhouseCoopers, LLC**

Dear Madame Chair Papen and Vice Chair Lundstrom:

I appreciated the invitation to appear before the New Mexico Finance Authority Oversight Committee (NMFAOC) on October 11, 2012 to discuss the Office of the State Auditor's (OSA) special audit of the NMFA. Thank you also for your letter dated October 16, 2012 in which you requested that my office amend the scope of work section of the contract between the OSA and Pricewaterhouse Coopers, LLC (PwC). After review of the items listed in your letter, I am concerned that your committee was misinformed about the complete scope of the test work that PwC is performing and the substantive content of the report they will provide. We recently were afforded the opportunity to clarify certain questions about the contract's scope with Hewitt EnnisKnupp, Inc. (HEK), and I believe we have resolved the concerns which prompted your letter.

We listened to the presentation and reviewed the memorandum that Ms. Jeanna Cullins and Ms. Nancy Williams of HEK provided to the NMFAOC on October 11, 2012. On page 2 of that memorandum, Ms. Cullins and Ms. Williams stated that their "review of the PwC contract revealed" certain "omissions" that they believed "should be addressed in order to improve the usefulness of the Special Audit." The memorandum then listed the following four items which closely track the items listed in the NMFAOC's letter dated October 16, 2012:

- 1) The scope of PwC's work does not include an investigation into whether any funds were actually stolen or embezzled from the NMFA;
- 2) The risk to the NMFA that PwC is to identify do not include the risk of corruption and whether any corruption took place;
- 3) The contract does not require PwC to state what materials it reviewed and what materials it did not have access to that would be considered relevant to the scope of work; and

- 4) There is not requirement that PwC provides all of its findings to the OSA, or to provide all of its findings in a written report.

On Monday, November 12, 2012, we received an email from Scott Miller of HEK in which he requested input from our office regarding the possible misinterpretation of the scope of work contained in contract. With the participation of PwC's managing partner for the project, on November 19, 2012 we had the opportunity to discuss the contract's scope with Mr. Miller and Ms. Judy Wagner in order to clarify certain issues related to HEK's conclusions about the contract's scope.

As my staff and PwC staff informed HEK, PwC, in fact, is conducting transaction testing designed to identify transactions that could provide evidence of embezzlement. The testing covers certain transactions, including bank reconciliations, wire transfer activity and journal entries. The testing also includes analytical procedures for the NMFA's financial statement balances from fiscal years 2009 to 2011. In addition to transaction testing, PwC is performing electronic evidence analysis and conducting interviews, which are all relevant procedures when trying to identify evidence of corruption (e.g., kickbacks, extortion, bribery, quid pro quo, etc.). PwC will also include an exhibit in its final report that lists all of the information they were provided. Furthermore, the report will address whether or not PwC received all materials it requested that were relevant to the scope of work. Finally, Section 1(E)(2) of the contract requires PwC to deliver a final written report to the OSA of its findings and recommendations for all phases of the engagement.

I think our discussion with HEK corrected some misunderstandings about the contract's scope and the usefulness of the special audit for the NMFA, lawmakers, other government agencies, and the public. We understand that HEK's ability to draw conclusions about the audit's scope was necessarily hampered by its limited access to audit information due to the confidential nature of the engagement. In light of this limitation, we regret that we were not afforded the opportunity to speak with HEK about its interpretations of the contract's scope ahead of Ms. Cullins' and Ms. Williams' presentation to the NMFA Oversight Committee on October 11, 2012. Given the clarifications discussed above, you can be confident that the contract's scope and the extent of PwC's test work already covered the items listed in HEK's memorandum and your letter.

I look forward to working with your committee in the best interest of the NMFA and New Mexico's taxpayers once the special audit report is released. Please do not hesitate to contact me directly should you wish to further discuss this matter.

Sincerely,



Hector H. Balderas  
State Auditor